



# **PULSAR joint Education and Financial Reporting Communities of Practice**

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## **Reconciling accounting and fiscal statistics – the European experience**

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# Overview

- The European fiscal governance framework (and how it may change)
- The importance of government finance statistics (GFS) in Europe
- The diversity of public accounting approaches in Europe
- Reconciliation of budgeting/accounting data with government finance statistics
- European Public Sector Accounting Standards (EPSAS)

# The European fiscal governance framework (now)

- Founded in legislation (Treaties, Regulations etc)
- Stability and Growth Pact
  - **Preventative arm – stability and convergence programmes**
  - **Corrective arm (Excessive Deficit Procedure) - references: 3% deficit, 60% debt**
- Budgetary Frameworks Directive
  - **Budgeting and forecasting, statistics, public accounting and audit**

# The European fiscal governance framework (how it may change)

- Extensive reflection on EU Economic Governance. European Commission proposals in April 2023
  - **Medium-term approach bringing together fiscal policy, investments and reform**
  - **Gradual and credible debt reduction thanks to prudent fiscal policy and underpinned by growth enhancing investment and reforms for EU priorities**
  - **More national ownership, based on common EU rules, and better enforcement**
  - **Simpler rules taking account of different fiscal challenges > Net Expenditure**

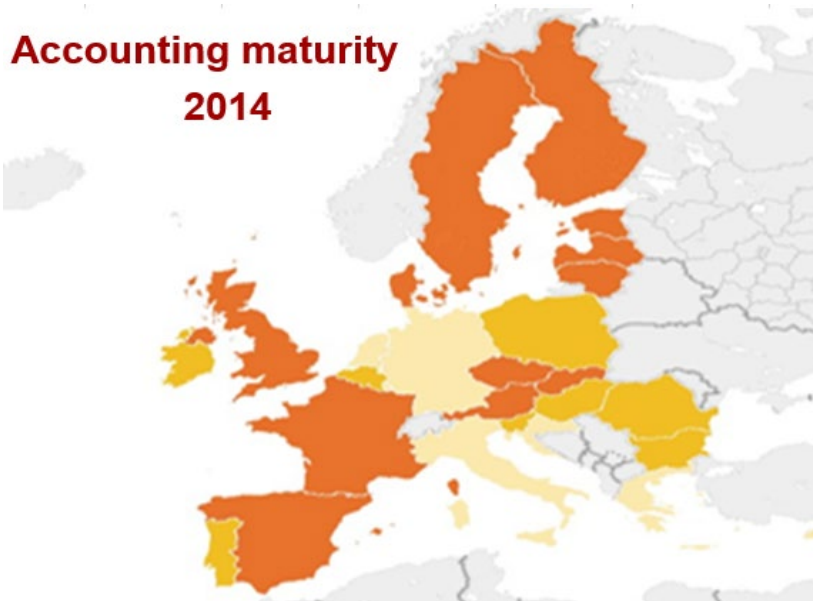
# The importance of GFS in Europe

- Budgeting and accounting diversity within and across countries in the 1990s
- Government Finance Statistics (based on “European System of Accounts”) are accruals-based and comparable
- Thus **the EU fiscal policy system was built on GFS**
- Major investment in Statistical Offices, underlying systems, verification etc. Quality and timeliness of statistics improved enormously over time

# Diversity of public accounting and budgeting in Europe

- Some EU countries have long traditions of public accruals accounting at all levels of government
- Major progress across most countries in recent years, many public accounting reform projects
- Most countries look towards IPSAS, but usually adapt/adjust for national circumstances
- Public budgeting is traditionally cash or near-cash based; reluctance of national Parliaments to move to accruals budgeting

# Accounting maturity update - central governments



Average accounting maturity (unweighted) has increased from 51% to 65%.

- AM  $\geq$  70%
- 40%  $\leq$  AM  $\leq$  70%
- AM  $\leq$  40%

Source: PwC Survey 2019

# EU accounting maturities by 2025

The main evolutions from 2018 to 2025 – the average accounting maturity increases:

- Central government: 65% to 76%
- State government: 54% to 59%
- Local government: 73% to 77%
- Social fund: 57% to 59%

Expected significant increases due to on-going reforms at Central Governments - in percentage points (p.p.): Greece +74 p.p., Malta +67 p.p., Cyprus +52 p.p., Portugal +41 p.p., Italy +36 p.p. Also major projects in Ireland and Luxembourg.



# Reconciliation of accounting and statistical data

- Bi-annual “Excessive Deficit Procedure” tables sent by countries to Eurostat
- Cover General Government (and sub-sectors)
- “Table 2” reconciles the “Working Balance” (budget/accounting) with the statistical deficit
- “Table 3” reconciles the statistical deficits and debts
  - **This table more statistical in nature, though relies a lot on underlying accounting data**

# Main elements of EDP Table 2

- **Working Balance (WB)**
  - **Most recognised, audited budget/accounting balance**
- Remove financial transactions in WB
- Add missing (extra-budgetary) transactions
- Accruals adjustments
  - **Interest, accounts payable and receivable**
- Add other (extra-budgetary) bodies
- Other adjustments (diverse, country-specific)

# Example of EDP Table 2

Member State: Luxembourg  
Data are in millions of Euros  
Date: 30/03/2023

	2019	2020	Year 2021	2022	2023	
<b>Working balance in central government accounts</b>	1 273	-1 980	995	157	-1 618	
<i>Basis of the working balance</i>	<i>mixed</i>	<i>mixed</i>	<i>mixed</i>	<i>mixed</i>	<i>mixed</i>	
<b>Financial transactions included in the working balance</b>	-1 418	-1 837	-2 284	-1 242	-924	
Loans, granted (+)	0	152	28	0	0	
Loans, repayments (-)	0	0	-7	-25	0	
Equities, acquisition (+)	25	25	62	50	21	
Equities, sales (-)	0	0	-22	0	0	
Other financial transactions (+/-)	-1 443	-2 013	-2 346	-1 267	-945	
of which: transactions in debt liabilities (+/-)	-1 442	-2 012	-2 345	-1 307	-954	
of which: net settlements under swap contracts (+/-)	0	0	0	0	0	
Detail 1						
Detail 2						
<b>Non-financial transactions not included in the working balance</b>	311	408	141	206	-399	
Detail 1	313	408	120	203	-356	Special Funds
Detail 2	-2	0	21	3	-42	Services de l'Etat à gestion séparée (SEGS)
<b>Difference between interest paid (+) and accrued (D.41)(-)</b>	-3	45	5	-1	-56	
<b>Other accounts receivable (+)</b>	-316	-113	-19	-12	29	
Detail 1						
Detail 2						
<b>Other accounts payable (-)</b>	-124	115	34	-116	84	
Detail 1						
Detail 2						
<b>Working balance (+/-) of entities not part of central government</b>	M	M	M	M	M	
<b>Net lending (+)/ net borrowing (-) of other central government bodies</b>	157	244	665	293	-87	
Detail 1	157	244	665	293	-87	Public establishments & Public corporations
Detail 2						
<b>Other adjustments (+/-) (please detail)</b>	2	-1	4	-8	-16	
Detail 1	0	0	-3	0	0	EFSF
Detail 2	0	3	1	1	0	Difference between taxes as included in the budget and cash tax data, not in relation to accrual corrections
Detail 3	0	-1	-2	-1	0	Elimination of other change in volume (K.1-6) & nominal holding gains and losses (K.7)
Detail 4	1	-1	-1	-2	-1	Adjustment for EU Flows
Detail 5	0	-1	-1	0	0	Provisions for calls under standardised guarantees
Detail 6	2	-1	11	-6	-14	Differences in data sources for consolidation within central government
Detail 7	0	0	0	0	0	Other adjustments
Detail 8	0	0	0	0	0	Not allocated residuals
<b>Net lending (+)/ net borrowing (-) (B.9) of central government (S.1311)</b>	-118	-3 119	-459	-723	-2 988	

# How is it done in practice?

- Statistical Offices cooperate closely with Finance Ministries, Central Banks and other bodies
- Often a broad range of input data, sometimes on mixed accounting bases
- Many countries build statistical needs into their Charts of Account, or use reconciliation tables
- Introduction of (**integrated/systematic**) accruals accounting significantly improves statistical compilation, but cash data still needed for some purposes (e.g. tax revenues)

# EPSAS

- Project towards harmonised European public accounting standards. Two phases:
  - **Promotion of public accruals accounting**
  - **Move to harmonised standards across countries and levels of government**
- EPSAS Expert Group – regular meetings
- Focus on financial reporting, not budgeting!
- *Footnote – Economic Governance Reform proposals include requirement for countries to have "integrated, comprehensive and nationally harmonised accrual financial accounting systems covering all subsectors of general government.."*

# Thank you



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